

Effective Cash Flow Management During COVID-19 Pandemic

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Disclaimer

Federal and other COVID-19 relief measures are constantly evolving and are subject to legislative changes. In preparing this material, we have relied upon our understanding of the Income Tax Act and information available up to and including April 21, 2020.

Any subsequent announcements or changes may affect our analysis and conclusions set forth therein. In the event of such changes, our views may be affected. Baker Tilly KDN assumes no obligation to update this material for any future changes in tax law, regulations, or other interpretations and does not intend to do so.

COVID-19: Business Guidance

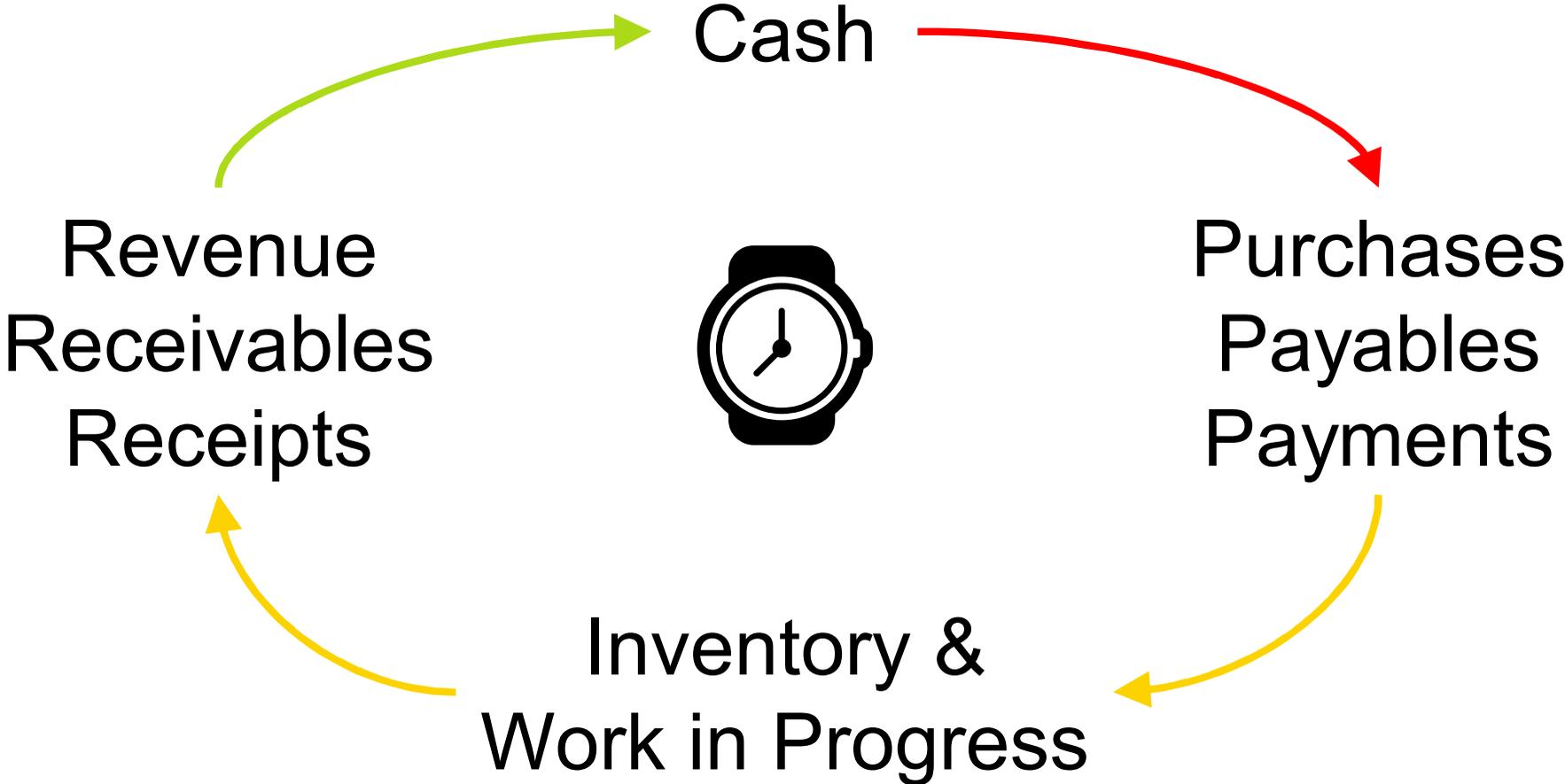
<https://www.bakertilly.ca/en/courtice-ontario/covid-19-business-guidance>

- **Incorporates the latest updates on all COVID-19 tax and financial measures impacting Canadian businesses**
 - Massive number of Government announcements and changes to previous announcements = VERY difficult to keep up
 - Tongue Twister – “What we know today differs from what we knew yesterday and will differ from what we will know tomorrow”



Cash Conversion Cycle (CCC)

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Cash Conversion Cycle (CCC)

- **Length of time for a company to convert cash invested in operations to cash received as a result of its operations.**
- Three components:
 - Days Inventory Outstanding (DIO)
 - Days Sales Outstanding (DSO)
 - Days Payables Outstanding (DPO)



Cash Conversion Cycle (CCC)

$$\text{CCC} = \text{DIO} + \text{DSO} - \text{DPO}$$

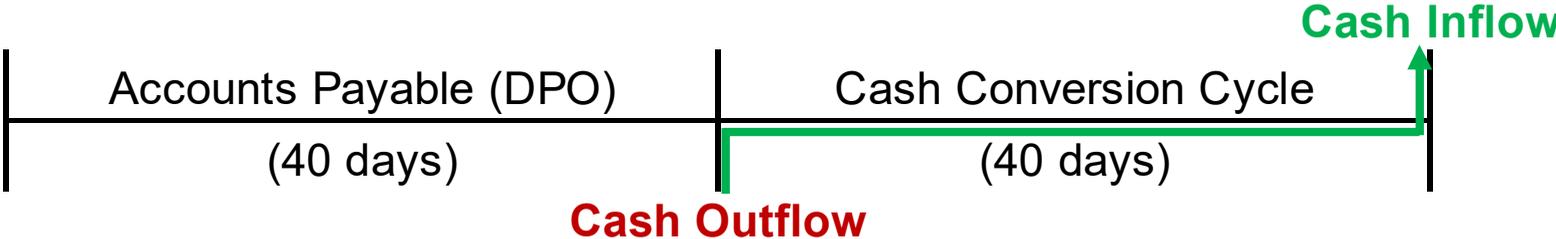
$$\begin{array}{l} \text{Days Inventory} \\ \text{Outstanding (DIO)} \end{array} = \frac{\text{Inventory}}{\text{Cost of Goods Sold}} * 365$$

$$\begin{array}{l} \text{Days Sales} \\ \text{Outstanding (DSO)} \end{array} = \frac{\text{Accounts Receivable}}{\text{Revenue}} * 365$$

$$\begin{array}{l} \text{Days Payables} \\ \text{Outstanding (DPO)} \end{array} = \frac{\text{Accounts Payable}}{\text{Cost of Goods Sold}} * 365$$



Cash Conversion Cycle (CCC)



$CCC = DIO + DSO - DPO$
 $CCC = 30 + 50 - 40 = 40 \text{ days}$



OK – But Why Should I Care?

- **Many business owners focus on Net Income or even Revenue and their businesses have run well for many years – why does this matter?**
- When times are good, over the long run – for mature businesses with relatively consistent earnings and a stable Balance Sheet (including accounts receivable, inventory and accounts payable) the Cash Conversion Cycle may not be as important.



Example – Acme Inc. – Dec 31/19 Income Statement

- Acme Inc. has \$6M in revenue annually in 2019 & 2018.
- Cost of sales are 70% of revenue (\$4.2M)
 - 100% variable.
- Gross margin is 30% of revenue (\$1.8M).
- Operating expenses are \$1.2M per year – 100% fixed.
- Pre-tax earnings = \$600K.
- Income taxes at 12.5% on the first \$500K and 26.5% thereafter.
- Net Income (after taxes) = \$511K for each of 2019 & 2018.

Sales			6,000,000
Cost of Sales			
Purchases		30.00%	1,800,000
Direct wages		40.00%	2,400,000
			4,200,000
Gross margin			1,800,000
<i>% margin</i>			30.00%
Expenses			
Interest - operating line			0
Operating expenses - fixed costs			1,200,000
Total expenses			1,200,000
Earnings before income taxes			600,000
Income taxes			89,000
Net earnings			511,000

Example – Acme Inc. – Dec 31/19 Balance Sheet

- Acme Inc.'s customers pay in 2 months (60.83 DSO = \$1M)
- Inventory on hand is 2 months (60.83 DIO = \$700K)
- Accounts payable are paid in 2 months (60.83 DPO = \$900K).

NOTE – for this example I have assumed 2 months on all expenses – not just the cost of sales.

- **OVERALL = \$800K of cash tied up = \$1M + \$700K - \$900K**

ASSETS			
Cash			50,000
Accounts receivable			1,000,000
Inventory			700,000
			1,750,000
Capital assets			1,500,000
			<u>3,250,000</u>
LIABILITIES and SHAREHOLDERS EQUITY			
Bank indebtedness			0
Accounts payable			900,000
			900,000
Shareholders` equity			
Share capital			1,000
Retained Earnings			2,349,000
			<u>2,350,000</u>
			<u>3,250,000</u>

Example – Acme Inc. – Dec 31/19 Balance Sheet

- Two other assumptions that are important:
 - Any capital expenditures are equivalent to depreciation/amortization
 - The company does not have any external debt, or if it did, any principal repayments are offset by the addition of new debt.



Example – Acme Inc. – Cash Flow

- Acme Inc.'s cash flow is impacted by the following:
 - Cash flow from operations = net income +/- any non-cash items
 - Working capital changes
 - Investing activity (purchase/sale of capital assets or other non-working capital)
 - Financing activity (debt repayments, new financing, share capital transactions, dividends, etc.)
- In this specific example, in 2019 Net Income (after taxes) is equal to the overall cash flow for Acme Inc.
 - Mainly because there was assumed to be no Balance Sheet changes.



When Things Are Good (i.e. 2010 to 2019)

- In good times, if a company's Balance Sheet was consistent between periods (months or years), Net Income may be reasonable proxy for cash flow.
- Unfortunately – if the business is changing significantly (early stage company, high growth, declining business, or **MOST BUSINESSES RE: COVID-19**) this approach will not work.
- Problem = along with any reduction in cash flow from operations it is likely that your Cash Conversion Cycle will also be impacted significantly.



When Times Aren't So Good (i.e. 2020)

- Days Inventory Outstanding (DIO) – most businesses should anticipate a slow down in the near term and as a result DIO will likely increase – **USE OF CASH**.
- Days Sales Outstanding (DSO) – as other businesses are impacted and their cash flows are affected they may request/take additional time to pay us. DSO will likely increase – **USE OF CASH**.
- Days Payables Outstanding (DPO) – as our cash flows are impacted we may need to request/take additional time to pay suppliers. DSO will likely increase – **CREATION OF CASH**. Unlikely to fully offset DIO & DSO.



Revisiting Acme Inc.

- WHAT IF? Acme Inc.'s 'days in' changed by a month?
- Previously 2 months (60.83 DSO = \$1M) change would be \$500K
- Previously 2 months (60.83 DIO = \$700K) change would be \$350K
- Previously 2 months (60.83 DPO = \$900K) change would be \$450K

If 3 months OVERALL = \$1.2M of cash tied up = \$1.5M + \$1.05M - \$1.35M

Change from previous = **\$400K USE OF CASH**

If 1 month OVERALL = \$400K of cash tied up = \$500K + \$350K - \$450K

Change from previous = **\$400K CREATION OF CASH**



Reinforcing the Point!

- **MAIN POINT = we SHOULD NOT be focusing solely on Revenue or Net Income – this is particularly true in trying times.**
- We should be managing our Balance Sheet at all times to improve the cash flow in our businesses, however, when times are good this may be overlooked.
- When times get tough, forces outside of our control will put pressure on our cash flow – we need to be managing Accounts Receivable, Inventory and Accounts Payable (along with other Assets and Liabilities on the Balance Sheet) or risk running into a cash crunch.



Forecasting Your Financial Statements



Forecasting Your Financial Statements

- Call it a financial model, forecast, projection, budget, what-if analysis, etc.
- Building these can be difficult when things are going well – it will be even more difficult in our current environment.
- This is not about predicting exactly where we will be in 12 months – **too many unknowns**. Focus instead on what we know or expect and have the ability to make revisions as changes occur.
- Cash and cash flow should be the focus.
- **Are there sufficient cash reserves or financing available to get us through?**



Forecasting Recommendations

- Required = Balance Sheet & Income Statement
- Cash Flow recommended (shows where cash is expected to go/come from)
- At least monthly (weekly may be preferred by some)
- This will not be a static document – build it with the ability to modify!
- Do not be overly optimistic – be realistic. If prepared for internal purposes lean towards pessimistic. Again our goal is to ensure that we have enough cash reserves or financing to get through.



Forecasting Recommendations

- **Income Statement:**

- Starting point = expectations for Revenue.
- Recognize Revenue for committed contracts and limit any consideration of non-committed or new business.
- Expenses – try to breakdown between Fixed and Variable costs. Fixed costs = incurred regardless of level of revenue. Variable costs = vary in proportion to revenue. Some expenses will be part Fixed and part Variable.
- Consider performing breakeven analysis – what level of Revenue results in Net Income = \$0?



Forecasting Recommendations

- Balance Sheet:

- Changes in Working Capital (particularly Accounts Receivable, Inventory, and Accounts Payable).
- Capital Expenditures (CAPEX).
- Financing – repayment of existing debt, additional financing if applicable.

- Other Assets or Liabilities not considered above – anything that impacts our cash position should be considered



Forecasting Recommendations

- **How long do we project COVID-19 slow down for?**
 - No one really knows...
 - Allow flexibility in your model.
- One recommendation I have heard from banks for BCAP forecasts:
 - 6 months at current levels (or lower if you expect further decline)
 - 3 months ramping back up
 - 3 months closer to normal operating level
- Certainly hope that the actual timeframe is much shorter, but a starting point.



Forecasting – Acme Inc. Revisited

- **Revisiting our previous example**
 - Up to Feb 29/20 – normal business \$500K monthly Revenue
- **Changes after Feb 29/20:**
 - Revenue – Mar/20 = \$300K; Apr to July = \$100K monthly; Aug = \$300K; Sept = \$400K; Oct/20 and forward = back to normal \$500K monthly.
 - Accounts Receivable – DSO anticipated to increase to 91 days (3 months) in Mar/20 and for the remainder of 2020.
 - Inventory – decision made to maintain the same level of inventory = \$700K.
 - Accounts Payable – decision made to continue paying all suppliers in 61 days (2 months).



Forecasting – Acme Inc. Revisited – Income Statement

Projected Statement of Earnings For the period ending		2019												2020
		December 31	February	March	April	May	June	July	August	September	October	November	December	Total
			Actuals	Projectec										
Sales		6,000,000	1,000,000	300,000	100,000	100,000	100,000	100,000	300,000	400,000	500,000	500,000	500,000	3,900,000
Cost of Sales														
Purchases	30.00%	1,800,000	300,000	90,000	30,000	30,000	30,000	30,000	90,000	120,000	150,000	150,000	150,000	1,170,000
Direct wages	40.00%	2,400,000	400,000	120,000	40,000	40,000	40,000	40,000	120,000	160,000	200,000	200,000	200,000	1,560,000
		4,200,000	700,000	210,000	70,000	70,000	70,000	70,000	210,000	280,000	350,000	350,000	350,000	2,730,000
Gross margin		1,800,000	300,000	90,000	30,000	30,000	30,000	30,000	90,000	120,000	150,000	150,000	150,000	1,170,000
% margin		30.00%	30.00%	30.00%	30.00%	30.00%	30.00%	30.00%	30.00%	30.00%	30.00%	30.00%	30.00%	30.00%
Expenses														
Interest - operating line		0	0	0	1,313	1,123	472	17	218	445	685	1,399	1,687	7,359
Operating expenses - fixed costs		1,200,000	200,000	100,000	100,000	100,000	100,000	100,000	100,000	100,000	100,000	100,000	100,000	1,200,000
Total expenses		1,200,000	200,000	100,000	101,313	101,123	100,472	100,017	100,218	100,445	100,685	101,399	101,687	1,207,359
Earnings before income taxes		600,000	100,000	-10,000	-71,313	-71,123	-70,472	-70,017	-10,218	19,555	49,315	48,601	48,313	-37,359
Income taxes		89,000	12,500	-1,250	-8,914	-8,891	-8,809	-8,752	-1,277	2,444	6,165	6,075	6,039	-4,670
Net earnings		511,000	87,500	-8,750	-62,399	-62,232	-61,663	-61,265	-8,941	17,111	43,150	42,526	42,274	-32,689
Retained earnings - beginning of period		2,349,000	2,349,000	2,349,000	2,340,250	2,277,851	2,215,619	2,153,956	2,092,691	2,083,750	2,100,861	2,144,011	2,186,537	2,349,000
Dividends paid		-511,000	-87,500	0	0	0	0	0	0	0	0	0	0	-87,500
Retained earnings - end of period		2,349,000	2,349,000	2,340,250	2,277,851	2,215,619	2,153,956	2,092,691	2,083,750	2,100,861	2,144,011	2,186,537	2,228,811	2,228,811



Forecasting – Acme Inc. Revisited – Balance Sheet

Projected Balance Sheet		2019											2020
As at		December 31	February	March	April	May	June	July	August	September	October	November	December
		Actuals	Projected										
ASSETS													
Cash		50,000	50,000	0	0	0	0	0	0	0	0	0	0
Accounts receivable		1,000,000	1,000,000	1,300,000	900,000	500,000	300,000	300,000	500,000	800,000	1,200,000	1,400,000	1,500,000
Inventory		700,000	700,000	700,000	700,000	700,000	700,000	700,000	700,000	700,000	700,000	700,000	700,000
		1,750,000	1,750,000	2,000,000	1,600,000	1,200,000	1,000,000	1,000,000	1,200,000	1,500,000	1,900,000	2,100,000	2,200,000
Capital assets		1,500,000	1,500,000	1,500,000	1,500,000	1,500,000	1,500,000	1,500,000	1,500,000	1,500,000	1,500,000	1,500,000	1,500,000
		3,250,000	3,250,000	3,500,000	3,100,000	2,700,000	2,500,000	2,500,000	2,700,000	3,000,000	3,400,000	3,600,000	3,700,000
LIABILITIES and SHAREHOLDERS EQUITY													
Bank indebtedness		0	0	398,750	341,149	143,381	5,044	66,309	135,250	208,139	424,989	512,463	570,189
Accounts payable		900,000	900,000	760,000	480,000	340,000	340,000	340,000	480,000	690,000	830,000	900,000	900,000
		900,000	900,000	1,158,750	821,149	483,381	345,044	406,309	615,250	898,139	1,254,989	1,412,463	1,470,189
Shareholders` equity													
Share capital		1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000
Retained Earnings		2,349,000	2,349,000	2,340,250	2,277,851	2,215,619	2,153,956	2,092,691	2,083,750	2,100,861	2,144,011	2,186,537	2,228,811
		2,350,000	2,350,000	2,341,250	2,278,851	2,216,619	2,154,956	2,093,691	2,084,750	2,101,861	2,145,011	2,187,537	2,229,811
		3,250,000	3,250,000	3,500,000	3,100,000	2,700,000	2,500,000	2,500,000	2,700,000	3,000,000	3,400,000	3,600,000	3,700,000



Forecasting – Acme Inc. Revisited – Cash Flow

Projected Statement of Cash Flow														2020
For the period ending														Total
	February	March	April	May	June	July	August	September	October	November	December			
	Actuals	Projected												
Operating activities														
Net earnings	87,500	-8,750	-62,399	-62,232	-61,663	-61,265	-8,941	17,111	43,150	42,526	42,274			-32,689
Changes in non-cash working capital														
Accounts receivable	0	-300,000	400,000	400,000	200,000	0	-200,000	-300,000	-400,000	-200,000	-100,000			-500,000
Accounts payable	0	-140,000	-280,000	-140,000	0	0	140,000	210,000	140,000	70,000	0			0
	87,500	-448,750	57,601	197,768	138,337	-61,265	-68,941	-72,889	-216,850	-87,474	-57,726			-532,689
Financing activities														
Dividends paid	-87,500	0	0	0	0	0	0	0	0	0	0			-87,500
	-87,500	0	0	0	0	0	0	0	0	0	0			-87,500
Increase (decrease) in cash for the period	0	-448,750	57,601	197,768	138,337	-61,265	-68,941	-72,889	-216,850	-87,474	-57,726			-620,189
Cash (bank indebtedness) - beginning of period	50,000	50,000	-398,750	-341,149	-143,381	-5,044	-66,309	-135,250	-208,139	-424,989	-512,463			50,000
Cash (bank indebtedness) - end of period	50,000	-398,750	-341,149	-143,381	-5,044	-66,309	-135,250	-208,139	-424,989	-512,463	-570,189			-570,189



Forecasting – Acme Inc. Revisited - RESULTS

- **Net losses – before any government assistance**
 - Just under \$9K in March & August.
 - Just over \$60K in April to July.
- **Major cash issues in:**
 - **March** – even though the net loss was only \$9K due to changes in our Balance Sheet **cash outflows in Mar/20 were nearly \$450K.**
 - **December** – even though we have recovered and net income is positive, the change in DSO has resulted in our largest bank indebtedness of the year.
 - These are specific to this example – reinforcing the need to consider the Balance Sheet as well as the Income Statement.



Improving Cash Flow – Where Do I Start?

1. Get creative with product / service offerings
2. Focus on billing and collections
3. Call suppliers
4. Review lease obligations
5. Delay capital expenditures
6. Call your lenders
7. Consider staffing requirements
8. Take advantage of government support
9. Take advantage of tax deferrals

but... be mindful of the long-term impact of each decision on your business



Overview of Government Support for Businesses

Government Support for Businesses

- Key programs to consider:

- Temporary Wage Subsidy (TWS = 10%)
- Canada Emergency Wage Subsidy (CEWS = 75%)
- Canada Emergency Business Account (CEBA = \$40,000)
- Business Credit Availability Program (BCAP = up to \$6.25M with up to 80% guaranteed by EDC)
- Canada Emergency Commercial Rent Assistance (CECRA) - **details to come**

- Other announcements:

- Corporate income tax return and payment deferral
- GST, HST & custom duties on imports



Temporary Wage Subsidy (TWS)

Executive Summary – TWS

- 10% of remuneration paid from March 18, 2020 to June 19, 2020
- Up to \$1,375 for each eligible employee
- Maximum \$25,000 total per employer*

*Associated CCPC's not required to share the maximum subsidy per employer.

- ❖ **Pro tip: Continue to calculate and take this subsidy, if eligible, even if eligible for the CEWS as you can deduct what you receive for TWS when CEWS application is ready.**



Eligible Employers – TWS

- **Business entities included:**

- Individuals (excluding trusts);
- Partnerships (partners must be eligible employers);
- Canadian Controlled Private Corporations (CCPC) eligible for the small business deduction* (i.e. taxable capital less than \$15M – size test); and
- NPO's and Charities.

*CCPCs must have a small business deduction (SBD) limit greater than NIL for its last taxation year that ended before the start of the eligible period.



How to Calculate and Receive the Subsidy – TWS

- Calculated at the time of payroll processing.
 - **10% of gross payroll for each employee subject to \$1,375 limit per employee and \$25,000 total maximum per employer.**
 - Reduce remittance of federal/provincial income tax on any payroll remittance period that includes remuneration paid from March 18, 2020 to June 19, 2020.
 - Carry any credits you can't use if subsidy exceeds remittance for the period.
 - Pick up any unused credits on the next payroll.
- ❖ **Pro Tip: May need to “opt-in” with payroll provider and may need to provide your calculations**



Books and Records – TWS

You will need to keep information to support your subsidy calculation. This includes:

- the total remuneration paid from March 18, 2020 to June 19, 2020;
 - the federal, provincial, or territorial income tax that was deducted from that remuneration; and
 - the number of eligible employees paid in that period.
- ❖ **Pro Tip: Consider keeping a separate tracking spreadsheet. You can access at free template at www.TaxTemplates.ca/wage-subsidy**



Government Assistance – TWS

This wage subsidy will be considered government assistance.

- Taxable
 - Reduction of wages for other Federal tax credits
 - Such as SR&ED
- ❖ **Pro Tip: Set up a separate general ledger (GL) account (Government assistance received) to keep track of the subsidy claimed**



Canada Emergency Wage Subsidy (CEWS)

Executive Summary – CEWS

- Up to \$847 per week per eligible employee for at least the 12 weeks from March 15, 2020 to June 6, 2020. Legislation allows for this to be extended.
- Different rules apply for:
 - New vs. pre-existing employees
 - Arm's length vs. non-arm's length employees
- ❖ **Applications for the first claim period open Monday April 27, 2020.**
- ❖ **Pro tip: Legislation released may make the determination of a qualifying entity and the calculation of the wage subsidy complicated in many circumstances. Recommend seeking outside assistance.**



Eligible Employers – CEWS

- **Business entities included (any size):**
 - Individuals;
 - Taxable corporation;
 - Partnerships (partners must be eligible employers); and
 - NPO's and Charities.
- **Must have a payroll account with CRA on March 15, 2020 to qualify.**
- **Business entities excluded:**
 - Public Bodies (municipalities and local governments, Crown corporations, boards of trade, chambers of commerce, public universities & colleges, schools, and hospitals)



Eligible Employers – CEWS

- Eligible employer must have a drop in revenue as noted below
 - Must attest to this fact
 - Must maintain documentation to support this fact

Eligible Period			
	Claiming period	Reference period for eligibility	Required Revenue Drop
Period 1	March 15 – April 11	March 2020 over March 2019 or compared to January and February 2020 average	15%*
Period 2	April 12 – May 9	April 2020 over April 2019 or compared to January and February 2020 average	30%
Period 3	May 10 – June 6	May 2020 over May 2019 or compared to January and February 2020 average	30%

**based on Bill C-14 (43-1) – COVID-19 Emergency Response Act, No. 2 which received Royal Assent on April 11, 2020*



Eligible Employees

- Eligibility for the CEWS on an employee's remuneration, will be limited to employees that have not been without remuneration for more than 14 consecutive days in the eligibility period, i.e., from March 15 to April 11, from April 12 to May 9, and from May 10 to June 6.
- This rule replaces the previously announced restriction that an employer would not be eligible to claim the CEWS for remuneration paid to an employee in a week that falls within a 4-week period for which the employee is eligible for the Canadian Emergency Response Benefit.



Calculating Revenue – CEWS

When doing the revenue comparison – rules to calculate revenue:

- Calculation of revenue:

- Business carried on in Canada
- Only revenue from arm's length sources
- Use normal accounting methods (choice of accrual or cash method but must stick with it for the duration of the program)
- NPO/Charities have option to include or exclude government sources

Excluded from Revenue:

- Extraordinary amounts,
- Amounts on account of capital
- **Wage subsidy itself not factored into revenue**



Calculating Revenue – CEWS

- There are additional rules for calculating revenue related to:
 - Consolidated financial statements;
 - Affiliated groups;
 - Joint ventures; and
 - Non-arm's length groups.
- To help navigate the complexities of this program, please consult your Baker Tilly advisor.



Calculating Eligible Remuneration – CEWS

- Eligible Remuneration includes:
 - Payments to eligible employees of:
 - Salary, wages or other remuneration
 - Fees, commission or other amounts for service
 - Fees for services – probably not consulting fees, but director’s fees



Calculating Eligible Remuneration – CEWS

- Eligible Remuneration excludes:
 - Retiring allowance;
 - Stock option benefits;
 - Any amounts received that can reasonably be expected to be repaid;
 - An amount paid as part of an arrangement where:
 - Amount is in excess of the employee's baseline remuneration;
 - After the qualifying period, the employee is reasonably expected to be paid a lower weekly amount than their baseline remuneration; and
 - One of the main purposes for the arrangement is to increase the amount of deemed overpayment.



Amount of Subsidy – CEWS

- **Pre-existing arm's length employees**
 - The greater of:
 - a. The least of:
 - 75% of eligible weekly remuneration paid to the eligible employee
 - \$847
 - b. The least of:
 - 100% of eligible weekly remuneration paid to the eligible employee
 - 75% of “baseline remuneration” for the eligible employee
 - \$847



Amount of Subsidy – CEWS

- **New (not an employee between Jan 1 – Mar 15/20) arm’s length employees**
 - 75% of the eligible remuneration paid to the eligible employee in respect of that week, up to \$847 per week.
- **Pre-existing non-arm’s length employees (family members and similar):**
 - The least of:
 - 100% of eligible weekly remuneration paid to the eligible employee
 - 75% of “baseline remuneration” in respect of the eligible employee
 - \$847
- **New non-arm’s length employees = NO CEWS CLAIM**



Refund for Certain Payroll Contributions

- The CEWS also includes a 100% refund for certain employer-paid contributions to EI, and CPP (also QPP and QPIP for Quebec).
- Employees must be on paid leave but not working at all for the employer
- This refund is not subject to the weekly maximum benefit per employee of \$847 and there is no overall limit on the refund amount that may be claimed.
- Employers would be required to continue to collect and remit employer and employee contributions to each program as usual. Eligible employers would apply for a refund, as described above, at the same time that they apply for the CEWS.



How to Apply – CEWS

- Applications to the CEWS will be through the Canada Revenue Agency's 'My Business Account' online portal as well as a web-based application.
- Web-based application process **to be developed in the coming weeks...**
- More details on application process to follow
- Payment received from CRA instead of payroll withholdings reduction
- ❖ **Pro tip: Consider using this time to get set-up for direct deposit to speed up receipt of funds.**



Books and Records – CEWS

You will need to keep information to support your subsidy calculation. This includes:

- Calculation of Revenue decline for eligibility;
 - Baseline remuneration for each eligible employee from January 1 to March 15, 2020; and
 - Weekly eligible remuneration for each claiming period.
- ❖ **Pro Tip: Consider keeping a separate tracking spreadsheet. You can access at free template at www.TaxTemplates.ca/wage-subsidy**



Books and Records – CEWS

The government of Canada released a calculator for the CEWS on Apr 21/20:

<https://www.canada.ca/en/revenue-agency/services/subsidy/emergency-wage-subsidy.html>

- Federal government details on the program.

- Calculate your subsidy amount is located at:

<https://www.canada.ca/en/revenue-agency/services/subsidy/emergency-wage-subsidy/cews-calculate-subsidy-amount.html#h-2>



Government Assistance – CEWS

This wage subsidy will be considered government assistance.

- Taxable
 - Reduction of wages for other Federal tax credits
 - Such as SR&ED
- ❖ **Pro Tip: Set up a separate general ledger (GL) account (Government assistance received) to keep track of the subsidy claimed**



Interaction - CEWS

- **Temporary Wage Subsidy vs. Canada Emergency Wage Subsidy**
 - Employers can be eligible for both
 - Any 10% wage subsidy received in a period would reduce CEWS wage subsidy for same period



Interaction - CEWS

- **Work-Sharing program vs. Canada Emergency Wage Subsidy**
 - For employers and employees that are participating in a Work-Sharing program, EI benefits received by employees through the Work-Sharing program will reduce the benefit that their employer is entitled to receive under the CEWS.



Financing programs



Canada Emergency Business Account (CEBA)

- To help small business and not-for-profits cover operating costs
- Payroll must be between \$20,000 and \$1,500,000 for 2019
- Apply through your regular financial institution (bank or credit union)
- **Applications are available now through your existing Financial Institution**
- Up to \$40,000 interest free government-guaranteed revolving loan
- Up to \$10,000 (25%) forgivable portion if fully drawn and then repaid by December 31, 2022
- Converts to a 5% interest loan after December 31, 2022 if unpaid



Canada Emergency Business Account (CEBA)

- Eligible uses for the loan:
 - payroll, rent, utilities, insurance, property taxes and scheduled payments on debt service.
 - Non-eligible uses for the loan:
 - dividends, increase in management salary or refinancing other debt.
 - Application requires a valid payroll number and total payroll from the 2019 T4 summary.
- ❖ **Pro tip: Small businesses and NPO's can use this to help cover the costs of payroll while closed or minimal operations until the CEWS is available.**

Business Credit Availability Program (BCAP)

- For small to medium sized credit worthy businesses (SME's).
- BDC and EDC to distribute through a co-lending programs with Financial Institutions for operating cash flow needs – incremental credit up to \$6.25M.
- EDC to work with Financial Institutions to guarantee up to 80% of NEW operating line or working capital term loan to be used of immediate liquidity needs related to COVID-19 – ex. can be used to cover payroll, rent and utilities.

More details to be announced this week.

- Financial Institutions will conduct the underwriting and manage the interface.
- ❖ **Pro tip: Contact your Financial Institution to start the application process as high volumes may cause delays. Other measures may also be available (e.g. deferral of principal on loans, possible increases to lines of credit).**



Business Credit Availability Program (BCAP)

- Program 1 – allows Financial Institutions to issue operating credit and cash flow term loans of up to \$6.25M to existing clients, with 80% guaranteed by EDC.

Certain Financial Institutions have made these programs available and others are expected to make them available this week.

- Program 2 – designed for 3 segments – loans of up to:
 - \$312,500 for businesses with revenue less than \$1M;
 - \$3.125M for businesses with revenue between \$1M and \$50M; and
 - \$6.25M for businesses with revenues in excess of \$50M.

Program 2 would be interest-only for the first 12 months with 10 year repayment.

Application details expected to come from Financial Institutions this week.



Mid-Cap Financing Program

- Based on discussions with EDC – it is expected that there will be additional announcements in the coming weeks to support Mid-Market businesses.
- Effectively – those businesses that require more than the \$6.25M allocated under the BCAP.
- No known timeline for additional announcements.



Canada Emergency Commercial Rent Assistance (CECRA)

Canada Emergency Commercial Rent Assistance (CECRA)

- Announcement by the Federal government on April 16, 2020 intent to create an additional program for small businesses.
- “The program will seek to provide loans, including forgivable loans, to commercial property owners who in turn will lower or forgo the rent of small businesses for the months of April (retroactive), May, and June. Implementation of the program will require a partnership between the federal government and provincial and territorial governments, which are responsible for property owner-tenant relationships. We are working with the provinces and territories to increase rent support for businesses that are most impacted by the pandemic and we will have more details to share soon.”



Tax Deadlines and Tax Payment Deferrals

Tax Deadlines and Tax Payment Deferrals

Corporate income tax payments (including instalments) due on or after March 18, 2020 and before September 1, 2020 can be deferred to September 1, 2020

Corporate tax returns due after March 18, 2020 and before June 1, 2020 are deferred to June 1, 2020

GST/HST payments, installments or remittances owing on or after March 27, 2020 and before June 2020 deferred until June 30, 2020. Recommended to still file return on time although no penalties will be charged for late filing by June 30th.



Questions?

The preceding information is for educational purposes only and is subject to change without notice. As it is impossible to include all situations, circumstances and exceptions, a further review should be done by a qualified professional.

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Thank you.

